



REGIONAL
BOND DEALERS
ASSOCIATION

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June 19, 2008

The Honorable Barney Frank
Chairman
Committee on Financial Services
United States House of Representatives
2129 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Frank,

We are writing to express the support of the Regional Bond Dealers Association for your two new bills intended to improve the municipal bond market. Your legislation is a welcome response to disruptions in the municipal market that have arisen in conjunction with the downturn in the broader credit markets. An efficiently functioning municipal market saves American taxpayers money, and your legislation will help ensure that state and local governments can continue to access the capital markets as cost-effectively as possible.

Your first bill would effectively require that bond rating agencies rate municipal bonds on the same scales as other credit products. An important theme in the Financial Services Committee's hearing on the municipal market in March was that the default and loss rates on municipal bonds are close to zero. Despite that, municipal bond issuers receive bond ratings across the rating spectrum. As a result, financing costs for some state and local governments are higher than they need to be. Your bill would address that problem.

Your second bill would make it easier for all municipal bond issuers, but especially small communities, to sell bonds as efficiently as possible by addressing tax code limitations on bank investment in tax-exempt bonds. The current \$10 million annual issuance limit for bonds eligible for bank investment was enacted over 20 years ago, and inflation has significantly eroded its value. By expanding that limit, your bill would provide cheaper financing for small communities who generally face higher costs when accessing the capital markets. Your indexing provision would help avoid in the future the deterioration in value for the bank qualified exemption that happened over the last 20 years. By allowing banks to purchase any tax-exempt bonds in amounts up to two percent of their assets, your bill would help alleviate pressures that still persists in certain sectors of the municipal market like auction-rate securities and would lower costs for all states and localities, big and small.

We commend your leadership in introducing legislation to address weaknesses in the municipal market. We support the bill wholeheartedly and we pledge our assistance to help ensure its quick enactment.

Sincerely,

/s/

Michael Decker
Co-Chief Executive Officer

/s/

Michael Nicholas
Co-Chief Executive Officer